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## **Thailand**

### **Agricultural Situation**

# **Key Issues Facing U.S. Food and Agricultural Exports to Thailand 2003**

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### **Key Issues Facing U.S. Food and Agricultural Exports to Thailand**

The biggest issue facing exporters to Thailand recently has been the slow economic recovery following the financial problems of the late 1990's. U.S. exports contracted sharply in 1998 and 1999 following a strong showing in 1997. Exports of products destined for the high value sectors (resorts, hotels, and restaurants) nose-dived to about 50% of the 1997 levels. Bulk commodities, including soybeans, cotton, and wheat, held on to levels much closer to their 1997 amounts. U.S. exports in all categories are strengthening again in 2003 following a strong year of demand for consumer, intermediate and bulk commodities in 2002.

Thailand's agricultural sector plays a pivotal role in domestic economic and foreign trade policy. Farmers and farm workers make up almost half of the population and are generally less well off than their urban counterparts. Despite the massive labor force occupied by the agroindustrial complex, this sector contributes less than 15% of the country's GDP.

Many of Thailand's high growth and high performance sectors (e.g., tourism, quick service restaurants, *inter alia*) are highly dependent on imported products. As the Thai economy improves – five percent growth in 2002 – and investment is beginning to become more active in many of the above mentioned areas, exports of U.S. food and agricultural products to support this growth should continue to strengthen.

Among countries with similar sized populations, Thailand is a leading importer of U.S. products. Interestingly, however, Thailand is also a major agricultural product exporter to the United States and the rest of the world. Well-priced agricultural commodities enable Thailand to penetrate most markets. Annual levels of Thai food and agricultural exports to the United States are just under \$3 billion, with only about \$600 million listed on the U.S. export registry as destined for Thailand. There is significant informal, cross-border trade, particularly from Malaysia where import duties are much lower than in Thailand.

Agricultural institutional and regulatory capacity in the Thai government (e.g., customs) runs the spectrum from world class to deficient. Regulations placed on domestically produced and traded goods and the enforcement of these regulations are sometimes difficult for Thai authorities given the nature of local business practices and the fluidity of domestic marketing channels. Conversely, enforcement of trade regulations on imported food products is relatively easier since the entry of products is well monitored by the Thai government.

Thailand has a clearly stated policy to stimulate use of domestic farm products in domestic processing and consumer channels and this policy has been a key component of the Thaksin government's domestic economic development package. The Thai government has simultaneously tried to boost foreign direct investment, particularly in the tourism sector. Franchises, including food outlets, have are highly visible and an important part of foreign capital flowing into Thailand. Both tourism and restaurants require considerable amounts of imported food and beverage products to maintain international standards and quality. With over ten million tourists coming to Thailand each year and millions of Thais including western, franchise prepared food, there is a very strong and growing demand for this segment of U.S. products.

## **Trade In Agricultural Products**

Thailand, despite its appetite for foreign food and beverage, is a relatively protected market with high duties and complicated import bureaucracy. Even as a full member of the WTO, Thailand fixed its bound and even applied duties relatively high. There are plenty of cases, however, where the applied rate is lower than the WTO bound rate.

Thailand does maintain some sixty agricultural tariff rate quotas (TRQ) which are administered by the government. One of the main complaints against the RTG has to do with the management of quota. The other issue is the high duty. Quota management is an area where Thailand effectively uses the bureaucracy to its advantage. Predictable, transparent management of quotas is one area where Thailand could do a much better job.

Thailand is aggressively entering into regional and bilateral trade negotiations that will give it improved access to new markets overseas. Similarly, Thailand's trading partners will have greater access to the Thai market. Up to this point the U.S. has not entered into a free trade agreement with Thailand. However, the initial steps of establishing a trade and investment framework agreement (TIFA) between the United States and Thailand have been taken and are expected to lead to a free trade agreement.

Thailand is moving ahead into the common external tariff (CET) zone in Asia which will mean that it has to reduce most of its tariffs for its nearby countries to a rate equal with theirs. Adapting the CET will mean that the more efficient countries could threaten Thailand's protected industries. This could result in Thailand becoming even more cautious about opening its market to the United States and the rest of the world.

## **Interconnected Food, Beverage, Tourism**

Tourism is a key economic engine in Thailand. It is one of the biggest employers of labor in the country and a huge consumer of imported products, including food and beverage. Thailand boasts that more than ten million tourists visit this country each year. The Thai government is keen on growing that number and developing the high end market within this industry. This will mean that tourism service providers will need to have ready access to imported food and beverage for planning and development strategies and to cope with the anticipated expansion of tourist numbers.

Access to this strategic market segment requires sector knowledge, quality products, ability to supply small quantities of a variety of products and have a local agent who can get the product registered, tested and approved. This constraint to exporting food and beverage from the United States should not be an insurmountable barrier to trade. However, there is considerable development of product knowledge and appreciation for value (not just price) among the importers and the end users.

Third country competition is rapidly heating up in Thailand. Australia is becoming a major supplier of fresh vegetables. Fresh fruit is now being exported from China, France and Chile. Wines and other beverages are flowing in from Australia, Europe, and South America. Meats

and cheeses of all sorts are coming from New Zealand, Australia and Europe. There seems to be imported product of all kinds finding its way into this market, with most of the high value products being sold through tourist outlets.

Tariffs are high on these goods, but the cost of the goods is passed directly onto the consumer. The holiday goer in Thailand seems willing to pay these high prices, but it seems that it will be only a matter of time before another destination is able to offer similar tropical vacations along with good accommodations and less expensive food and beverage options. Wine and spirits imported into Thailand face astronomically high duties and taxes. While the import duty on these products is a bit under 60% ad valorem, there is an excise tax that takes into account the amount of import duty paid. The effective tax rate on wine (including both import duties and excise taxes) is around 300%. However, wine exports to Thailand in recent years (since 1997) have continued to grow strongly. Again, it is the relatively easy money to be collected from import duties and taxes that keep this system in place. Furthermore, the local beer and whiskey producers do not want to see wine come into this country at an attractive rate.

### **Biotechnology**

Thailand's biotechnology policy is ambivalent, allowing research in government and university laboratories but not allowing field trials or commercialization of transgenic plants. From the applied side, it is widely known that there is transgenic cotton growing in Thailand today without the approval of the government. Additionally, there are no regulations, other than a moratorium, as to how to manage transgenic crops that are in commercial production in Thailand.

The Thai government is currently trying to work out the bureaucratic management of biotechnology. The Ministry of Science and Technology has stated that it is the entity that is charged with the development and management of biotechnology in Thailand. The Ministry of Agriculture and Cooperatives, however, is the chair of the biotechnology committee whose members include the Ministry of Science and Technology and others.

Compared to its neighbors, Thailand is a late comer to the biotechnology field. Malaysia, Philippines, Indonesia, India and China are all well ahead of Thailand in terms of embracing research and commercialization of transgenic crops. Malaysia is well known in the region for its commitment to research in many fields, including biotechnology. By comparison, Thailand is only starting to push its equivalent to Malaysia's "research corridor".

Thailand has the scientific wherewithal to develop its own biotechnology programs, research and development. However, there are non-science concerns within the Thai government that keep the support for biotechnology programs limited to the laboratories. The pressure put on Thailand by the European Union is perhaps the leading hindrance to commercial production of transgenic organisms in Thailand. The Thai government claims that its unwillingness to move forward with commercialization of transgenic plants is due to the EU's strict import regulations on these sorts of products.

### **Food Quality and Safety**

Imported food, beverage, and agricultural products from the United States face the same sanitary and phytosanitary barriers to enter Thailand as they do in many parts of the world. These stringent standards are in place for imported product even though domestic producers often times are not obliged to meet the same standards. Arduous tests for chemical residues, colorants, and other food additives are burdensome on the exporter and importer alike. Methodologies used in testing are not always standardized to global practices, resulting in discrepancies between results from foreign laboratories and Thai laboratories.

Another idiosyncrasy of the Thai food safety system is its reluctance to publish the changes or updates to existing regulations. Instead of providing written guidance the common way of doing business is based on an official's word or personal commitment. Generally, this word is honored, if only until that official leaves or is reassigned.

### **Import and Export Procedures**

Thailand is a country that relies on movement of goods into and out of ports. Albeit a tedious and time consuming process, products move rather well inbound and outbound. Of course, the movement of product into and around the country is not accomplished without the customary official and unofficial requirements. For the most part, Thailand is transparent about import guidelines into the kingdom, with exception, of course.

While the guidelines may be clear, the implementation of them is generally not. Import policy is developed and administered by the Ministry of Trade, whereas the Ministry of Agriculture oversees the technical import regulations. Most decisions to allow imports of sensitive products, such as those for which the country negotiated import quotas for example, are reached in committees that will include many levels and segments of the bureaucracy.

There is plenty of room for individual interpretation of the import regulations, particularly in the remote import facilities and ports. Individual discretion on the part of the local officials causes discrepancies between ports and can confuse exporters and importers alike. However, it is always the practice for local importers to develop strong contacts and manage their relationships with local and national level regulatory officials and departments.

### **Recommendations**

Several worthwhile goals could be set for cooperating with the Thai government that, if attained, would go a long way in improving market access, transparency, and fair and equal application of existing policies.

- Stepping up the technical dialogue between the United States and Thailand in all areas of food and agriculture, including, but not limited to, biotechnology;
- Continuing work through the WTO, other multilateral, and bilateral discussions with the Thai government to strengthen our mutual understanding of food safety, sanitary and phytosanitary measures as they relate to food and agricultural trade;

- Engage the Thai government on issues related to tourism development, notably food and beverage imports, distribution, and human resource training/management to better handle and understand U.S. food and beverage products as they can boost this sector's development;
- Establish a dialogue within the Thai government and private sector on the issue of the cost of tariffs on the Thai food and agricultural industries, impact on competitiveness, and implications for encouraging illegal imports.